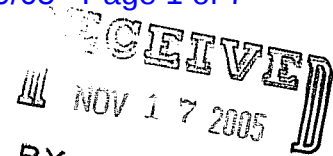
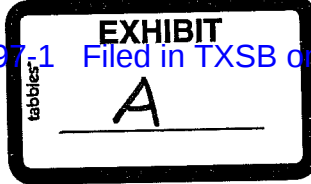




HughesWattersAskanase



BY: _____

STEVEN D. SHURN
ASSOCIATE

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Direct Dial: 713-328-2824

November 14, 2005

Via First Class Mail and Facsimile (713) 961-5341

Hugh M. Ray, III, Esq.
Weycer, Kaplan, Pulaski & Zuber, P.C.
1400 Summit Tower
Eleven Greenway Plaza

Re: Case No. 05-80340; Tile Outlet, Inc. ("Tile Outlet" or "Debtor"), In the
Southern District of Texas, Galveston Division

Dear Hugh:

In your November 2, 2005 correspondence, the Official Committee of Unsecured Creditors of Tile Outlet, Inc. (the "Committee") demands that Tile Outlet file suit against:¹

1. Bank One, N.A. to avoid Tile Outlet's guaranty of Alan Miller's loan with Bank One because such secured guaranty was purportedly a fraudulent transfer;
2. Mr. Miller for purportedly breaching his fiduciary duties because he caused the Debtor to guaranty the Bank One loan on a secured basis; and
3. David Tinsley for breaching his fiduciary duty.

Pertinent facts.

As you know, Mr. Tinsley was the president and a director of the Debtor. Mr. Tinsley asked Mr. Miller if Mr. Miller would purchase his interest in Tile Outlet. Mr. Miller agreed. As part of the purchase, Mr. Miller borrowed \$600,000 from Bank One, which was paid to Mr. Tinsley.

Tile Outlet guarantied the \$600,000 loan, and pledged its assets to secure such obligation.

¹ At the outset, it is important to note that the Debtor believes that the majority of the allegations asserted in the November 2, 2005 demand letter are untrue.



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At the time of the buyout, Mr. Miller, on behalf of Tile Outlet, believed that the buyout would save Tile Outlet approximately \$305,000 in annual savings. This belief is evidenced by the enclosed document entitled "Tile Outlet Purchase Proposal"² which Tile Outlet provided to Bank One prior to Bank One making the \$600,000 loan. This document evidences Mr. Miller's belief that Tile Outlet would benefit from the buyout because it would save the company \$305,664 per year. These savings are comprised of the following:

Salary	\$240,000
Insurance	
Truck, Life and Health	\$ 34,800
Travel, Entertainment, Meals	\$ 15,000
Truck	\$ 9,864
Cell Phone	\$ 3,000
Donations	\$ 3,000
Total Yearly Savings:	\$305,664

This \$305,664 *yearly* savings is significant when compared to Tile Outlet's \$600,000 secured guaranty.

The stock sale between Mr. Tinsley and Mr. Miller occurred on June 15, 2004.

According to Tile Outlet's Balance Sheet³, Tile Outlet was neither insolvent on June 15, 2004, nor rendered insolvent by its \$600,000 contingent liability to Bank One pursuant to the secured guaranty.

It is important to note that, according to its Balance Sheet, Tile Outlet's total assets in June of 2004 were worth approximately \$2,175,330, of which approximately \$1,918,506 was attributable to inventory.

No claim against Mr. Miller for breach of fiduciary duty exists.

Tile Outlet does not believe that a claim for breach of fiduciary duty exists against Mr. Miller merely because Mr. Miller caused Tile Outlet to guaranty the Bank One loan on a secured basis. At the time the guaranty and security agreement were entered, Mr. Miller and Tile Outlet believed that because of the anticipated significant *yearly* savings of approximately \$305,000 resulting from Mr. Miller's purchase of Mr. Tinsley's interest, that in Mr. Miller's business judgment it was beneficial for Tile Outlet to enter into the secured guaranty.

² Enclosed as Exhibit "A" is a true and correct copy of the Tile Outlet Purchase Proposal.

³ Enclosed as Exhibit "B" is Tile Outlet's June, July and August 2004 Balance Sheet.



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November 14, 2005
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No fraudulent transfer claim exists against Bank One.

No fraudulent transfer claim exists against Bank One. An actual fraud claim does not exist because the secured guaranty was not transferred to Bank One with intent to hinder, delay or defraud. Additionally, a constructive fraudulent transfer claim against Bank One does not exist because:

1. Pursuant to the Indirect Benefit Rule, Tile Outlet received reasonably equivalent value in exchange for entering in to the contingent secured guaranty by receiving the anticipated \$305,000 *yearly* savings resulting from Mr. Miller's purchase of Mr. Tinsley's interest in Tile Outlet.
2. As evidenced by Tile Outlet's enclosed Balance Sheet, Tile Outlet was neither insolvent, nor rendered insolvent, as a result of its secured guaranty.
3. As a result of the Secured Guaranty, Tile Outlet did not engage in a transaction for which its remaining property was unreasonable small capital. At the time it executed the \$600,000 secured guaranty, Tile Outlet's assets were worth approximately \$2,175,330, of which approximately \$1,918,506 was attributable to inventory.
4. Tile Outlet did not intend to incur debts that were beyond its ability to pay as such debts matured. Not only was the guaranty a contingent debt, but the payments under the note are approximately only \$10,000 per month.

Potential claims against Mr. Tinsley.

The Committee asserts that "Mr. Tinsley may be liable to the Debtor for breach of fiduciary duty" and that "a contribution claim by Mr. Miller may exist against Mr. Tinsley." As Tile Outlet and Mr. Miller have told the Committee before, Tile Outlet and Mr. Miller are willing to explore these issues with the Committee, and the possibility of transferring all such causes of action against Mr. Tinsley to the Committee through plan confirmation.

Conclusion.

For the reasons stated above, neither a fraudulent transfer claim against Bank One, nor a breach of fiduciary duty claim against Mr. Miller, exists. Because of this, it is improper for Tile Outlet to file suit against either.

Sincerely,



Steven Shurn

Enclosures



Hugh M. Ray, III, Esq.
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cc: Michael Durrschmidt, Esq. via email with enclosures
Ken Thomas, Esq. via email with enclosures
Rick Ruchaber via email with enclosures
Alan Miller via email with enclosures

Tile Outlet Purchase Proposal

Key Changes to Improve Sales and Reduce Expenses

Company Savings from Buy-out of David Tinsley

	Annual
Salary	240,000
Insurance	
Truck, Life, Health	34,800
Travel, Entertainment, Meals	15,000
Truck	9864
Cell Phone	3000
Donations	3000
Total:	\$305,664

Advertising Expense -- Annual

	Current	Proposed
SWB Yellow Pages	45,600	12,000
TV Ads, Austin	180,000	96,000
TV Ads, Houston	275,000	180,000
Total	\$500,600	\$288,000

Reduction of Expense: **\$212,600** annually

Bad Check Loss

Loss for 2003: \$76,294.00

Employ Green, Grant, and Richards, Inc.: 50% Guarantee Return on checks. Estimated Loss Reduction of **\$20,000**

Forklift Maintenance

Minor repair to be done in-house by Warehouse Supervisor Larry Ross rather than out sourcing. Annual Expense Reduction: **\$10,000**

Consolidation of Office Supply Purchases

All office supply purchases to be consolidated through Accounts Payable Clerk. To be requisitioned and monitored for waste.
Estimate Annual Savings of 20%: **\$15,000**

EXHIBIT

A

Cash Shortages from Daily Sales

All shortages to be deducted from Store Manager's Monthly Bonus.
Shortages Eliminated. Annual Savings of **\$6264**

Start-Up Expenses

Expense in 2003 of \$43,708. Eliminated for 2004. No new start-up
anticipated for 2004. Savings of **\$43,708**

Total Annual Reduction of Expense \$613,236

Sales Increase

The four Houston area stores located directly on major freeways, and the
Perry Road location will open on Sundays. No significant increase in
expenses anticipated.

Potential Sales increase per location: \$10,500 per month
Annual Sales increase for five locations: \$630,000

Cash Basis

Tile Outlet, Inc.
Balance Sheet

Cash Basis Accounting	BU 4/07/05 PrePet As of Jun 30, 04 *	BU 4/07/05 PrePet As of Jul 31, 04 *	BU 4/07/05 PrePet As of Aug 31, 04 *
ASSETS			
Current Assets			
Checking/Savings			
Petty Cash	4,468	4,793	4,556
3296 Bank One CRD	2,245	1,895	1,583
Chase CRD			
3346 Bank One Payroll	32,055	1,522	27,961
Chase Payroll			
3585 Bank One Main	-24,528	-45,514	-60,505
3742 Savings	2,148	2,135	2,122
6945 Chase Bank of Texas	28,705	4,435	1,435
Business Money Market	30,388	10,388	10,388
Total Checking/Savings	75,481	-20,346	-12,460
Accounts Receivable			
Gas Advance	6,915	6,915	6,915
ROA	16,070	16,070	15,076
Total Accounts Receivable	22,985	22,985	21,991
Other Current Assets			
Inventory Asset	1,918,506	1,984,691	1,848,346
Investment	1,556	1,556	0
Petty Cash			
Prepaid			
Security Deposit	51,298	51,298	51,298
Sign			
Total Other Current Assets	1,971,360	2,037,545	1,899,644
Total Current Assets	2,069,826	2,040,184	1,909,175
Fixed Assets			
Plant, Property and Equipment	126,880	112,450	112,450
Total Fixed Assets	126,880	112,450	112,450
Other Assets			
Advance	-22,500	-10,000	6,146
Employee Loan	1,124	3,554	3,094
Office Equipment			
Total Other Assets	-21,376	-6,446	9,240
TOTAL ASSETS	2,175,330	2,146,188	2,030,864
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable			
Accounts Payable	1,413,193	1,385,717	1,261,344
Total Accounts Payable	1,413,193	1,385,717	1,261,344
Other Current Liabilities			
2001 Bank One Line	240,080	240,080	231,280
4395 Ford Truck	0	0	0
4396 Ford Truck	666	666	666
6801 Ford Truck			
9280 Ford Truck	12,278	11,556	10,833
9295 Ford Truck	1,250	834	834
9674 Ford Truck	3,334	2,500	1,667
CHASE AUTOMOTIVE FINANCE	2,028	1,521	1,014
Chase Bank			
C. G. Tinsley			
Loan Payable			
Federal Inc. Tax Payable			
Sales Tax Payable	62,116	61,698	60,068
Total Other Current Liabilities	321,752	318,855	306,342
Total Current Liabilities	1,734,945	1,704,572	1,567,686
Total Liabilities	1,734,945	1,704,572	1,567,686
Equity			
Capital			
Opening Bal Equity	-26,498	-26,508	-26,508
Retained Earnings	240,007	240,007	240,007
Stock	1,000	1,000	1,000
Net Income	225,876	227,118	248,679
Total Equity	440,385	441,616	463,178
TOTAL LIABILITIES & EQUITY	2,175,330	2,146,188	2,030,864

* Inventory was adjusted at year end 2004 to reflect freight and customs duties previously expensed instead of being booked as part of landed cost of inventory. The adjustment was estimated at 50% of actual cost for year or \$467,875. Using the same methodology, inventory was increased in the above balance sheets by \$208,565 for the June period, \$27,456 for July & \$5,775 for August periods to reflect what the adjustment would have been if done in those periods.

** There is a contingent liability to Chase/Bank One commencing on July 13, 2004 in the amount of \$600,000. Shareholder Alan Miller, the primary obligor on the \$600,000 liability pledged approximately \$100,000 in assets to secure the liability. Tile Outlet's contingent liability would be offset by an equal amount due from Shareholder Alan Miller if exercised by Chase/Bank One.

EXHIBIT

tabbles'

B